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**PRIVATIZATION EFFORTS FOR RESOLVING OUR MILITARY  
HOUSING SHORTFALLS: DOES THIS MAKE SENSE  
FROM A WELL-BEING PERSPECTIVE?**

**BY**

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## ABSTRACT

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The Department of Defense (DoD) over recent years has attempted to improve the "Quality of Life" (QOL) of the service member and their families in an effort to retain our rank and file. One area of concern is the availability and living conditions of Government family housing. Not only does DoD lack sufficient housing to provide our military members and their families, the conditions of these houses are generally substandard or inadequate to say the least. Currently DoD has approximately 300,000 dilapidated houses and apartments to fix, a huge waiting list and nowhere near the \$30 Billion required to fix the problem. The focus of this paper will predominately look at how the military housing construction and control efforts are transitioning from DoD to the private sector which appears to be the Army's primary option for resolving their "Housing" shortfalls. Obviously, this goal is twofold, one to yield higher quality housing, and two, to improve upon the "Well-Being" concerns of our service members and their families. This research paper will evaluate whether or not fixing DoD's housing shortfalls will have a positive affect on the "Well-Being" of the service members and their families, since housing is one of the top QOL programs within DoD.



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## PREFACE

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## PRIVATIZATION EFFORTS FOR RESOLVING OUR MILITARY HOUSING SHORTFALLS: DOES THIS MAKE SENSE FROM A WELL-BEING PERSPECTIVE?

The Army's readiness is inextricably linked to the well-being of its people—soldiers, civilians, veterans and their families. The most significant investment in the nation's security is investing in them. We must provide *adequate housing*, schools, and medical and dental care with a quality and access comparable to society at large.

— GEN Erik K. Shinseki

The United States Government over recent years has attempted to improve the "Quality of Life" (QOL) of the service member and their families in an effort to retain their rank and file. Part of the concern of retaining military personnel is a direct reflection of the downsizing or elimination of QOL programs due to a lack of current government funding. One area of special concern in the area of QOL is the availability and living conditions of Department of Defense (DoD) family housing.

### PURPOSE

This research paper will evaluate whether or not fixing DoD's housing shortfalls will have a positive affect on the "Well-Being" of the service members and their families, since housing is one of the top QOL programs within DoD. The focus of this paper will predominately look at how the military housing construction and control efforts are transitioning from DoD to the private sector which appears to be the Army's primary option for resolving their "Housing" shortfalls. Obviously, this goal is twofold; one, to yield higher quality housing; and two, to improve upon the "Well-Being" concerns of our service members and their families.

### BACKGROUND

According to a recent article published in the May 2000 edition of National Defense, "the pressure to provide adequate housing for military personnel is growing because poor living conditions are driving military families out of the service."<sup>1</sup>

Unfortunately, the situation is not getting any better. Both initial recruits and even career members of the Armed Services are leaving the service in unexpected numbers because many of the programs offered to the military are either going away or more importantly are not available to a majority of the workforce.

According to the Government Accounting Office (GAO), "access to affordable, quality houses is a key element affecting the quality of life of military members and their families." Only

one-third of military families or 265,000 live in government quarters and the inability to improve living conditions causes serious problems.<sup>2</sup>

In my opinion through personal observations over the past twenty plus years, most of the QOL programs that the service member and the families have enjoyed are being shut down as one means of saving expenses for DoD. However, realizing the direct impact this potentially has on "Well-Being", DoD is aggressively looking for innovative ways to save these critical programs.

Responding to this demand for quality, in FY 2000 considerable efforts were made to improve DoD's QOL programs. Initial estimates indicate this will require an investment of at least \$108 million for programs and \$221 million for facilities over the period 2003 – 2007. This money only reflects appropriated funds (AF) requirements and does not include any Non-Appropriated funds (NAF). The following illustration (Figure 1) identifies the amount of money spent over the recent years in the area of QOL. Program funding shows a constant increase, but remains lower than necessary to achieve its "Well-Being" across the entire force.<sup>3</sup> There has been a lot of work to upgrade QOL programs throughout our installations worldwide, but much work remains.

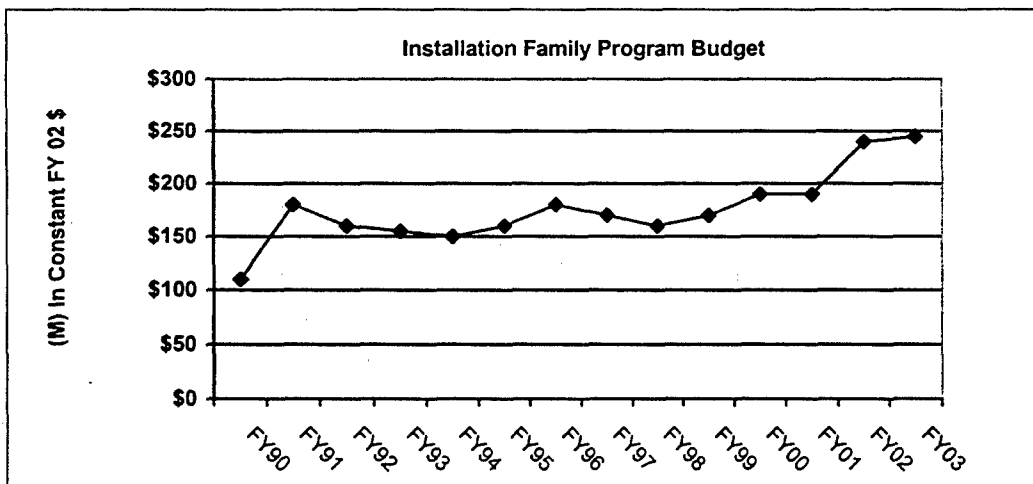


FIGURE 1 - MONEY INVESTED IN QUALITY OF LIFE PROGRAMS

With the current efforts to transition the military forces into a more flexible, light, and rapid responsive organization to support the demands of the 21<sup>st</sup> Century, DoD continues to look hard at options that can simultaneously improve and retain QOL programs, and at the same time, meet the requirements articulated by the National Military Strategy objectives imposed by our Government leadership.

Several initiatives have been looked at over the past years but the one that seems to be the most promising is an effort to team with local communities and convert traditional government controlled programs over to the private sector.

Working with the Private Sector is not new for DoD. For many years, the military has partnered with the Private Sector and has offered both dental and medical program options to service members and their families as a solution to saving money so critical defense resources could be reinvested elsewhere.

Probably one of the most significant efforts to improve QOL of the service member and their families is in the area of family housing. There is an expectation that DoD should provide service members and their family's housing comparable to what can be obtained on the civilian market within their housing allowance. Unfortunately, that is not always the case. In my opinion, not only does DoD lack sufficient houses to provide our military family members but also the conditions of the current DoD houses provided are substandard or inadequate to say the least.

There has been significant focus on this issue. For example, according to an Executive Report published by the Secretary of Defense, "Quality Housing" is another important example of our commitment to sustain a suitable quality of life. The Army has increased funding for both family housing and barracks programs. "We are focusing our efforts on investing in essential, high-payoff facilities" says Mr. Rumsfeld, "the goal of the Army Family Housing Program is to renovate family quarters on a 35 year cycle, while reducing recurring maintenance, energy consumption, and inconvenience to occupants."<sup>4</sup>

Troops are asked everyday to put their lives on the line in service to their nation. Yet they often are forced to work in dilapidated surroundings: runways are crumbling, piers are rusting, roofs leak, sewer lines are corroded, and headquarters are cramped. In addition, when soldiers who live on base go home to their families, they often have to put up with tenement-like barracks with peeling paint, cracked walls and poor plumbing.<sup>5</sup>

Recognizing the need to replace and repair DoD family housing does not go without a huge price tag. Currently, DoD has about 300,000 dilapidated houses and apartments to fix, a huge waiting list and nowhere near the \$30 billion it says it needs to tackle the problem.<sup>6</sup> Many compare the housing to inner-city public housing projects. "It's unconscionable," says Rep. Edward Schrock, R-Va., a member of the House Armed Services Committee; "We owe our service people better."<sup>7</sup>

According to the Under Secretary of Defense for Acquisition and Technology, "there are few human needs in life more basic or important than a decent place to live."<sup>8</sup> Housing can and

should play a pivotal role in mitigating some of the extraordinary stresses of military life. Military personnel consider good housing an essential linchpin in their daily lives, basic to their QOL and to that of their families.<sup>9</sup>

The Army has a \$17.8 billion maintenance backlog, the largest in the military. A recent Army report found that its "facilities are in a death spiral" that will take 30 years to reverse. "You can't neglect our infrastructure for this long without having to sooner or later pay the piper," says Maj. Gen. Robert Van Antwerp, the Army's Installations Management Chief. "That's where we are today."<sup>10</sup>

Brigadier General Robert L. Herndon, former Chief of Army Housing, states that for at least the past 20 years funding levels have not kept pace with even basic maintenance needs, much less construction requirements. He further goes on to say, "Clearing the maintenance backlog alone will cost \$16 billion to \$30 billion - a huge spread because nobody really knows how big the figure is."<sup>11</sup>

The idea of the Government providing adequate housing for the military in America is older than the Republic itself. Its origin dates back to the Revolutionary times when the British commandeered colonial private housing in order to quarter their troops. Understandably, this practice was repugnant to most colonists, especially our founding fathers. As a result, the framers of the Constitution wrote into the Bill of Rights "*no soldier shall, in time of peace be quartered into any house, without the consent of the owner...*"<sup>12</sup> Therefore, another means was found through building government owned facilities. When housing was not available then pay allowances were provided for local renting of housing.<sup>13</sup>

In evaluating this critical issue, I prepared a survey at the U.S. Army War College. The purpose of the survey was an attempt to prove that there is a correlation between Quality of Life (QOL) programs and the Well-Being of our service personnel and their families and to find out where *Housing* ranked in priority of the top DoD QOL Programs. Of the 119 responses received from service members and their spouses, *Housing* ranked in the top 3 of all QOL programs evaluated. 49.1% were satisfied with their current housing condition. 95.5% believed that DoD should provide Government Housing. Interestingly, 45.5% were in favor of DoD getting out of the housing business entirely. Of the 80.2% responded that they were familiar with DoD's initiative by using "Privatization" to resolve our military housing shortfalls, 72.4% felt that "Privatization" was the best solution for resolving our housing shortfalls (Table 1 below).

The responses were overwhelming that the current process we have for fixing our DoD housing challenges is unsuccessful and that any program will be viewed as better than what we have now.

		Housing Questions	
			Overall %
	Lived In Government Housing	96.4	
	Satisfied with Government Housing	49.1	
	Should DoD Continue to Provide Housing	95.5	
	Should DoD Get Out of Housing Business	45.5	
	Familiar with Privatization Initiatives	80.2	
	Is Privatization the Best Solution	72.4	

TABLE 1 - RESPONSES TO HOUSING QUESTIONS

I also felt it was important to look at where housing ranked in priority of the top eight QOL programs within DoD. A Well-Being Committee identified these eight programs in September 1999 at the U.S. Army War College as part of a tasking from the Chief of Staff of the Army.<sup>14</sup> In rank ordering with one being the most important and eight being the least important, the priority of the QOL programs from a "Well-Being" perspective, three programs came out on top (Table 2). Pay and Allowances, Medical, and Housing ranked the highest, with Army Community Services, Youth Services, and Educational Benefits ranking the lowest with Child Care and Morale Welfare and Recreation in the middle.

QOL Programs		Priority		Mean
Pay and Allowance		1		2.01
Medical		2		2.29
Housing		3		3.18
Morale Welfare and Recreation		4		5.19
Child Care		5		5.22
Education Benefits		6		5.54
Youth Services		7		5.73
Army Community Services		8		6.72

TABLE 2 - PRIORITY FOR QOL PROGRAMS

From a satisfaction perspective, six of the eight programs rated over 80% (Figure 2).

<b>How Satisfied are you with DoDs QOL Programs</b>					
	Totally Dissatisfied	Mostly Dissatisfied	Neither Satisfied or Dissatisfied	Mostly Satisfied	Totally Satisfied
PAY AND ALLOWANCES	3.5	30.7	14.9	43.0	7.9
MEDICAL	13.2	22.8	28.9	31.6	3.5
HOUSING	26.3	39.5	17.5	14.0	2.6
MORALE WELFARE AND RECREATION	3.5	7.0	28.9	54.4	6.1
CHILD CARE	1.9	10.3	54.2	27.1	6.5
EDUCATION BENEFITSHOUSING	2.8	14.7	36.7	39.4	6.4
YOUTH SERVICES	.9	14.4	44.1	34.2	6.3
ARMY COMMUNITY SERVICE	1.8	12.4	43.4	36.3	6.2

**FIGURE 2 - SATISFIED WITH DOD QOL PROGRAMS**

The data collected revealed that single officers, overwhelming were dissatisfied with Housing (100%) compared to married (61.1%). Looking at the six DoD Services who responded, the information gathered was not significantly different. Although the majority of the responses were totally to mostly dissatisfied with DoD Government Housing there were some who responded who were totally satisfied (Army and USMC). Spouses on the other hand did respond differently from the Active Duty respondents. Active Duty members were more dissatisfied with Housing than their spouses. Of the 65.4% who were totally to mostly dissatisfied, Active Duty responses made up the majority at 53.9% with spouses at 11.5%.

However, in my opinion most families in the Army would prefer to live on post because of the associated camaraderie, sense of community, protection for their families, and most importantly financial savings back to the individual family. Whether a new soldier or a senior grade leader, military families expect their home to be safe, affordable and conducive to a lifestyle that allows the family to grow and feel good about the sacrifices related to service to our nation. According to a recent report published in U.S.A. Today, "the home is the center of family

life and the environment established makes a lasting impact on service members and their families."<sup>15</sup>

#### DEFINITIONS.

QUALITY OF LIFE. Quality of life is defined in resource management terms as those programs that directly enhance the quality of life for our soldiers and their families and exist solely for that purpose.<sup>16</sup>

WELL - BEING. Well-Being is defined to be the personal-physical, material, mental, and spiritual-state of soldiers, civilians, retirees, veterans and their families that contributes to their preparedness to perform the Army's mission.<sup>17</sup>

PRIVATIZATION. Private companies using their own capital to develop, operate, and maintain resources. In this definition, the Army is turning over Government housing requirements to the private sector to develop, operate and maintain.

CONTRACTING. The movement or execution of a Government business (traditionally done by the Government) to an external agency outside of the Government; however remains responsible for the funding and business oversight.

#### PRIVATIZATION INITIATIVES TOWARDS FAMILY HOUSING

It's morally wrong to ask people who are risking their lives for the country to live in housing that the rest of us would be embarrassed to call home.

—Rep. Chet Edwards

Andrea Stone wrote in a recent article in USA Today, "Welcome to today's U.S. military, where rundown housing and ramshackle work facilities are common on bases across the country."<sup>18</sup> In the face of such criticism, the Pentagon embarked several years ago on a program to rehabilitate barracks for the 40% of troops that live on bases. Their intent is to replace all the dilapidated facilities by 2010.<sup>19</sup> For our unmarried soldiers, barracks refurbishment and replacement is also an issue that is being addressed at the highest levels and DoD is making great progress; however, the purpose of this research is intended to focus on our *family housing* concerns. Therefore I will not address unaccompanied housing issues in this paper.

Approximately 65% of the military are married and entitled to DoD housing of which; only 25% have housing options available. According to one source, 740,000 or 53% of America's 1,394,000 active duty personnel are married and three fourths of them have children. An

additional 88,000, or 6%, are single parents.<sup>20</sup> Of course, these numbers vary significantly depending on the Installation you are assigned to.

One area in particular that affects most service members and their families is the quality and availability of government owned housing. Today, depending on where you are assigned most military families are required to find accommodations in the local community. This generally results in-out-of-pocket expenses since readily available quarters are not an option. Given the fact that the majority of family members are strained to find housing on the economy, many service members especially at the lower grades find it difficult to nearly impossible to afford adequate housing within their housing allowance. One can easily see why the majority of DoDs married couples would prefer to live in DoD houses and forfeit their housing allowance to provide shelter for their families rather than come up with additional funds to augment the price tags associated with off-housing and utility costs.<sup>21</sup>

For example, at Fort Meade, Maryland, a married person in the grade of E-4 receives \$930.00 a month for Basic Assistance for Housing (BAH). That may seem high for a Specialist; however, most find themselves paying out of pocket to meet their basic housing needs to live in this high cost area. The reason for this is two fold. First, they are competing against all ranks who receive additional income for housing where the housing is in a very expensive market. Second, they are also competing with non-military personnel who find it economically more reasonable to live around Fort Meade than in the Military District of Washington (MDW) area in which they work. The average rent for adequate housing in the Fort Meade area ranges from \$1000-\$1500 a month, not including utilities.<sup>22</sup>

Although DoD continues to build additional family housing units on most installations, they clearly cannot keep up with the demands based on today's defense budget shortfalls. Defense Secretary Donald Rumsfeld estimates that the Pentagon would need \$63 billion through 2010 to upgrade all the bases in need of reconstruction. However, Congress is not expected to approve such a large a sum, so the military announced in September of 2000, that it wants to close facilities and use its funds to rehabilitate the bases it wants to keep.<sup>23</sup>

According to an article in Industry Focus, "it would take \$20 billion and 30 years to bring housing up to par across all branches of the service."<sup>24</sup> Other sources say it could take up to 40 years to replace and repair the 300,000 family housing units owned by the DoD most of which were built in the 1940s and 1950s.<sup>25</sup>

With the current funding constraints under traditional Military Construction (MILCON) rules, and the slight possibility of receiving appropriations money for these housing requirements, it is fair to say that this approach is not the right solution to meet our housing

"Well-Being" concerns. We must turn to alternate solutions and clearly, "Privatization" is just one of the courses of action DoD is pursuing.

As part of this potential solution, the National Performance Review along with the Defense Performance Review was instrumental in recommending to Congress to look at identifying family housing as a candidate for "Privatization".<sup>26</sup> As a direct result of their efforts, in 1996, Congress authorized DoD to privatize some installation housing through the policies established in the 1996 National Defense Authorization Act (NDAA). What is interesting about this bill is the fact that even though these DoD houses were built solely by the military, private businesses would be required to fix the maintenance and accountability issues within specified time lines for these houses or be held financially liable. This does not appear to affect "Privatization" initiatives thus far.<sup>27</sup>

Several "Privatization" options are being looked at across DoD focusing on this effort. Specifically, for the Army, four Installations have been selected to participate in this endeavor under the Residential Community Initiative (RCI) program. These posts include: Fort Meade, Maryland, Fort Carson, Colorado, Fort Hood, Texas and Fort Lewis, Washington.<sup>28</sup> It is realistic to assume, that the surrounding civilian communities could benefit financially, and at the same time support the Army's effort to provide adequate housing to their military family members.

As part of the NDAA, RCI programs have begun where soldiers who reside on the Installation receive their BAH through payroll deduction and forfeit their BAH (or in essence pay rent) directly to the developer. The amount a soldier receives is based on their specific rank, geographic location and family status. According to the RCI program office, rental revenues will cover development costs, operations, maintenance costs, and debt service.<sup>29</sup> Soldiers who live in Government Housing traditionally do not pay rent or utilities. Those who live off the Installation receive a housing allowance to cover those expenses, but in many instances, this allowance falls short of the actual costs. Under "Privatization", a housing allowance for each soldier living in privately developed units on the Installation would go directly to the developer. The Army would still pay for utilities.<sup>30</sup>

Through RCI, the Army offers America's Housing Industry the potential for long-term partnerships that will enhance their development portfolios and simultaneously improve Army family housing around our nation. These partners will design, build and operate livable communities for Army families that include various types of family housing and the amenities and support services that most Americans already enjoy. To finance these projects, partners will leverage public funds with substantial private investment.<sup>31</sup>

The initial plans are focused on resolving two major areas of concern towards current housing shortfalls. The first area of concern is towards repairing existing family housing units that can be repaired economically. The second focus is towards replacing or building new housing units across the Continental United States (CONUS) Installations. By teaming with Industry through "Privatization" efforts using the RCI concept, the Army believes it can reduce its housing shortfall much faster than through traditional Army programs with substantial savings to the Government.

Certainly, the Army is not unique amongst the Services who also are looking at "Privatization" as a solution to their housing shortfalls. Below (Table 3) are the MILCON figures for FY 2001 funding levels for military housing.<sup>32</sup> Congress continues to provide MILCON authorizations but unfortunately, the moneys appropriated are not consistent or reliable for long-term solutions to fix our housing shortfalls.

<b>Service Expenditures</b>	<b>New Construction</b>	<b>Repair of Current Units</b>
Army	\$1.2 Billion for Construction 1000 Units	Thousands of Units
Air Force	\$224 Million for 272 Units	Upgrade 1278 Units
Navy/Marines	\$363 Million 3,153 Units	

**TABLE 3 - HOUSING FUNDING PLANS**

These estimates show the commitment from the Services to improve their housing conditions. Unfortunately, this only scratches the surface. It appears each Service is choosing a different option than that being pursued by the Army. For the most part, the Air Force is relatively comfortable with using traditional MILCON options for maintaining and building new housing requirements. The Navy it appears is looking at contracting out and using some privatization efforts but not to the same degree being pursued by the Army. What is still out for public debate is the question: Can "Privatization" of Government Housing save the military money in the long run?

The answer appears to be yes. For example, one housing initiative being pursued at Fort Hood, Texas (the largest privatization effort programmed to date) under traditional Army programs to fix their existing housing situation would cost the Army roughly \$4 Billion. Under the RCI program, initial development costs to fix and build new homes (under a 50 year

program) would cost \$300 Million with the Army contributing only \$52 Million plus the BAH from each service member. Clearly there is a substantial upfront cost savings to the Government and the majority of the money is being paid by the Private Contractors (\$248 Million).<sup>33</sup> Details of the Fort Hood project will be presented in a later section of this paper. According to GAO sources, they believe it would cost 11 percent less to use private contractors instead of running it all through the military.<sup>34</sup> This assumes that the Government provides sufficient money to the installations in the first place for maintenance and sustainment.

Looking at the overall problem we are facing, this illustration (Figure 3) is an attempt to show the amount of time and money saved by using "Privatization" to fix our housing shortfalls. Note, to fix *Housing Shortfalls*, solely by DoD, relying on Operations and Maintenance (O&M) and MILCON dollars is optimistic to say the least. This is unlikely because O&M dollars for maintenance backlog and new construction is normally funded through end of year Unfunded

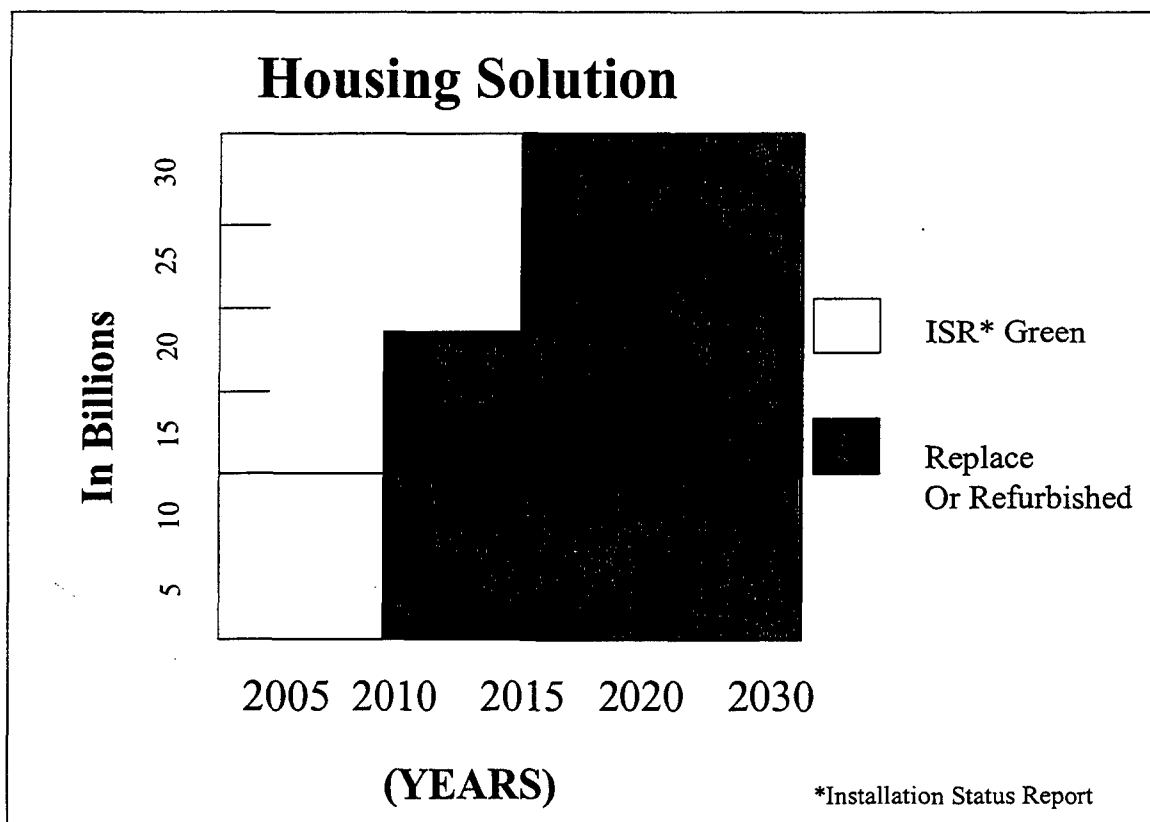


FIGURE 3 - COMPARISON OF HOUSING PROGRAMS

Requirements or UFRs. Historically these programs do not compete well for yearend funds. However, by using RCI Programs, DoD housing challenges will all be brought to standards NLT 2010 and all houses will have either been completely restored or replaced by 2030. Bottom line, O&M dollars are not reliable but on the other hand, RCI dollars will result in a fixed income

to the RCI Private Partner and can be programmed accordingly to fix the housing shortfalls. By 2010, all houses that are not within standards based on Installation Status Reporting (ISR) will be fixed or there will be a hefty fine to the RCI Partner.<sup>35</sup>

#### FT GEORGE G. MEADE PILOT PROGRAM

One of the four Installations selected to be part of the RCI Partnership Program is located in Anne Arundel County, at Fort George G. Meade, Maryland. Having spent some time at Fort Meade, approximately four years from 1989-1993, I can speak first hand to the poor quality and lack of housing availability offered to service members who are assigned there. I also spent several days this year speaking with the housing office and talking to residents who lived in DoD housing there. The housing waiting list generally varies from 12-18 months. Today, anyone assigned to the Military District of Washington (MDW) area is authorized to live on the Installation.<sup>36</sup> Most military housing on Fort Meade is approximately 40 years old and needs a new facelift.

The cost of living in the local area varies by the size of house or apartment that you are looking for. Today, housing rental costs surrounding Fort Meade for a typical family with two - three children, on the average ranges from \$1,000 to \$1,500, not including utilities. The average housing allowance provided to service members ranges from a low \$1000 to a maximum rate around \$1,600 for Field Grade Officers (Table 4). This places the individual in a situation where they must pay out of pocket a minimum of \$300-\$500 a month or more to live on the economy. It is clearly an advantage to live on post especially for the lower ranks at Fort Meade, Maryland.

	BAH RATE FOR FORT MEADE	
GRADE		PAY
E-1		\$1002
E-5		\$1065
E-7		\$1363
O-1		\$1092
O-3		\$1461
O-5		\$1666

TABLE 4 - SAMPLE BAH CHART

The Army hopes to get out of the business of building and managing housing for soldiers and their families--a task that would cost an estimated \$20 billion and 40 years to address.

Instead, it would guarantee developers long-term ground leases and a captive rental market. "Privatization" initiatives planned for Fort Meade would tear down these houses and build new houses that are maintained and sustained by the private sector.<sup>37</sup>

The response by the Private Sector has exceeded initial estimates. Compared to the study kick-offs at other Army Installations, "Privatization" efforts at Fort Meade, briefed at a local hotel in Baltimore drew 280 participants, 100 more than a similar session on Fort Lewis, another Installation in a hot housing market.<sup>38</sup> There is no doubt that the local communities surrounding Fort Meade realize the advantage to homebuilders, and are committed to continuing their successful relationship with the entire Fort Meade community. However, if the housing numbers increase on the Installation there could be a concern from the community. Army officials attributed Fort Meade's popularity to its location between Washington, Baltimore, Annapolis and Columbia as well as to the strong housing market.

Fort Meade has the benefit of location, being at the geographic center of the region, and of being at the epicenter of an expanding economic situation.

— Mahlon "Sandy" Apgar IV,  
Assistant Secretary of the Army for  
Installations and Environment

The task will be one of competition to ensure that all families have the opportunity to live on the Installation or in DoD leased housing. Milton J. Pajak Jr. of Harkins Builders in Silver Spring said his firm had a particular interest in the deal because it built the most recent units at Fort Meade, 262 hotly sought-after town houses completed in 1995.<sup>39</sup>

According to Army officials, the condition of the rest of Meade's housing is among the worst capital in the Service. At Fort Meade, the winning development team will be expected to demolish and replace 2,488 of 2,862 existing units, renovate 112 historic quarters and build 300 apartments over the next 10 years. If this project was successfully executed all interested parties would win, the Army, the local community and most importantly, the service members and their families who live in the Fort Meade area.<sup>40</sup>

Fort Meade is an excellent example of a relatively stable community. Most service members assigned to Fort Meade support the National Security Agency and generally speaking are in a non-deployable status. Their likelihood of deploying is relatively low; however, this cannot be said for all the installations where "Privatization" efforts are taking place. Unfortunately, there is a long waiting list to reside on the Installation (larger numbers than most installations) because of the opportunity for anyone in the MDW to live there, especially after RCI is complete.<sup>41</sup>

## FORT CARSON PILOT PROGRAM

At Fort Carson, Colorado, approximately 204 townhouses are being built and some 276 are being renovated. In a two-year project, the construction company of J.A. Jones Inc. of Charlotte, N.C., is ahead of schedule compared to the pace of traditional MILCON. Under normal MILCON a condition, from the time and idea is put on paper to the time that the construction is completed can vary from 5-7 years. Just the money procurement process alone can range from 3-5 years. According to a recent article published in the Los Angeles Times, "Colorado's Ft. Carson is the centerpiece of an effort to privatize construction. The plan has met success and strife."<sup>42</sup>

Under this agreement, the company will build, operate and maintain town houses and homes for the life of the contract. These contracts are 50 years long and after the contract has expired, the Government (in this case the Army) will own the houses.<sup>43</sup> In return, the Army leases the land to the contractors and provides them with an assured tenant base and predicable income. Depending on the monthly allowances of the tenants, the range will vary from \$681 for a Private to \$1,230 for a General at Fort Carson. The advantages to the Army are significant. Over the first five years of the contract, which was signed in 1999, J.A. Jones will spend \$229 million to build 840 units--729 townhouses and 111 single-family homes--renovate 1,823 units, and build a community center, all at no cost to the Army.<sup>44</sup>

One might ask what is the risk to the Contractor? Bottom line, the risk is minimal in my estimation because if Fort Carson was to close under the current conditions of the contract, the Army would have to pay 80% of the company's debt. The other risk factor potentially is to the Government. What if the contractor goes out of business after the contract is let? The housing process at Fort Carson potentially would be delayed until a new RCI partner was identified or until the Installation was capable of taking over.

For those families living at Fort Carson today, the families appear to be satisfied. But having said that, in my opinion, how many families wouldn't be satisfied in a refurbished or brand new home where there is no out of pocket expenses?

## FORT HOOD PILOT PROGRAM

Another post that is using "Privatization" to resolve their military housing shortfall is Fort Hood, Texas. In 1999, according to an article published by the Association of the United States Army (AUSA), the Army received congressional approval to pursue the largest military housing "Privatization" project ever completed by a public-private partnership.<sup>45</sup> This project is part of the Army's RCI program. The Fort Hood project, which has just recently been approved by the

Army, will represent one of four of the military family housing projects currently under private-public partnership agreements.

The partnership, known as Fort Hood Family Housing (FHFH) Limited Partners, will renovate or replace all existing 5,622 housing units and build 290 additional new units at Fort Hood, near Killeen, Texas. At the end of this "Privatization" project, all of the family housing at Fort Hood will have been replaced or improved. "This initiative provides soldiers with quality housing that will help the Army attract and retain the quality of soldiers we need", says acting Secretary of the Army, Joseph W. Westphal.<sup>46</sup> As stated by the Acting Secretary of the Army, "The Army has long recognized that building and maintaining homes is not one of our core competencies. By partnering with private industry, we can improve residential communities and provide soldiers and their families with the modern, comfortable homes they deserve. The Army's RCI program allows us to provide quality homes more quickly than traditional methods, and in a cost-effective manner. It's just smart business."<sup>47</sup>

Lend Lease Actus and Trammell Crow Residential, the primary partners with the Army in this initiative, will spend \$300 million in the first 10 years of the \$4 billion, 50-year contract to replace or renovate 90 percent of the homes on Fort Hood. The plan also calls for quality residential communities, which include enhanced landscaping, parks and recreational areas that will foster community spirit and make the Installation more attractive. Under this new program, improvements that would normally take 30 years can be completed in six to 10 years.

## **PRIVATE SECTOR RESPONSE**

According to one Contractor, at least at Ft. Carson, Colorado, "everybody gets something out of the deal, the soldiers get better housing and J.A. Jones gets a great project."<sup>48</sup> There are some distinct advantages to these RCI Partners. "Privatization" is being viewed as a win-win (a true business opportunity) for the military and the private sector.

First, there is no cost in the procurement of land. Under the privatization program, the Army provides the land (federal property) to these Private Contractors to build on, thereby reducing the costs to the builder. Second, money has been released authorizing these companies to borrow money upfront under the provisions of the NDAA. Third, there are several tax advantages to these businesses. Since these houses are being built on Government property, they are exempt from paying property taxes. Fourth, the developers do not have to provide for local fire and police support since these houses will reside on military installations. Finally, these companies have a safe bet that they will receive a steady income from soldiers BAH at a high rate of occupancy.

There are also provisions built into these contracts that if an Installation were closed because of the Base Realignment and Closure (BRAC), then DoD would have to pick up the housing costs. This is clearly a safe investment for the Private Investor(s). Under the RCI Partnership contract, these private companies view this initiative as a long-term annuity plan. If they uphold their end of the bargain, large amounts of money (millions) will be awarded in return in both incentives and investments gained. For example, the legal documents provide severe penalties for failure to meet specified requirements. If the RCI Partners do not deliver, they will first lose incentive award fees. Failure to cure can result in termination of the contract. RCI Partners have a strong incentive to do well because they begin by putting up \$10 million in equity that will be forfeited if they lose the contract. Later, RCI Partners keep more than \$19 million in deferred developer fees in the project between the 18th and 50th year.<sup>49</sup>

Based on the initial successes of the four Installations pursuing RCI projects several other locations are already being looked at to continue this initiative to resolve their housing shortfalls. The following illustration (Figure 4) shows the number of installations that have been approved under "Privatization" initiatives to date.

<b>Housing Privatization Contracts</b>	
<b>Fort Hood, TX</b>	<b>5,622 homes</b>
<b>Fort Lewis, WA</b>	<b>3,860</b>
<b>Fort Meade, MD</b>	<b>3,170</b>
<b>Fort Carson, CO</b>	<b>2,663</b>
<b>Elemendorf, AK</b>	<b>828</b>
<b>Camp Pendleton, CA</b>	<b>712</b>
<b>Robins Air Force Base, TX</b>	<b>670</b>
<b>Naval Station, Everett, WA</b>	<b>473</b>
<b>Lackland Air Force Base, TX</b>	<b>420</b>
<b>NAS, Corpus Christi, TX</b>	<b>404</b>
<b>Dyess Air Force Base, TX</b>	<b>402</b>
<b>Naval Air Station, Kingsville, TX</b>	<b>150</b>
<b>Total:</b>	<b>19,374</b>

**FIGURE 4 - HOUSING PRIVATIZATION CONTRACTS**

So, what are the main benefits to the contractors? According to one source, "Privatization is a win-win-win program for military families, the privatization contractor, and local businesses. The key fact that allows success for all is that there will be for the first time in 50 years or more, a direct linkage between what the military member forfeits in terms of housing allowance and the money that is actually spent for new construction, maintenance, and repair."<sup>50</sup> Another

important aspect of "Privatization" is that a low bidder who can disappear or declare bankruptcy at the completion of construction is not building the houses. Therefore, the RCI Partners build them and thereafter maintain them. The best approach is to build quality products whose future maintenance costs are low."<sup>51</sup>

One of the real advantages to the RCI Partner is that the total revenues coming into the project from the Service Members BAH, is not siphoned off to pay property taxes but is available to improve the quality of housing as well as the conduct of professional property management. As a corporation, Military Community (MC) Partners pay all corporate taxes as it would for any commercial development. "The various legal documents that will govern their efforts precisely define the fees, incentives, and the return on invested equity so we are not in the position of saving money on the project that can be put into their pocket."<sup>52</sup>

### **SERVICE MEMBERS RESPONSE**

Across military installations, the complaints are the same. Ceilings sag and floors buckle. Many children are living in houses that are replete with lead paint and asbestos lies exposed. Patched roofs continue to leak and septic systems continue to overflow. Many homes simply need to be demolished. Military brass worry that today's conditions that have been neglected for far to long could have an effect on war-fighting ability and a huge impact on whether or not soldiers will remain in the service.<sup>53</sup>

Many families living in housing provided by DoD have an issue with their landlords. Many commanders say the current housing issue lowers morale and hurts reenlistment. Some commanders feel they are forced to direct families to live in unsatisfactory living conditions to keep the housing occupancy rate at the appropriate levels. Others feel that there clearly just is not enough money to repair the housing units satisfactory.

Results of the previously discussed survey conducted at the Army War College, revealed that single officers, overwhelming were dissatisfied with Housing (100%) compared to married (61.1%). This is probably because most installations do not have Quarters for bonified Officer Bachelors. On the other hand, some senior grade officers would be just as happy to receive a decent BAH rate that would allow them to live comfortably on the economy.

Despite poor quality, base housing is in demand. Waiting lists generally are between one to two years at some installations. Some of reasons for this are because base housing or government owned housing and utilities are free of charge. Our service members just want a safe, clean, affordable and well maintained home when they move in, something they would be proud to call home. Although demands to live on post vary from rank to rank and from

Installation to Installation, the overall position appears to be that DoD housing (*if adequate*) is the preferred option by our service personnel.

## OTHER CONSIDERATIONS

### EXPAND MILITARY CONSTRUCTION (MILCON)

Under the Current Military Construction Authorization Act for Fiscal Year 2001, Congress has approved the authorization that the Secretary of the Army may improve existing military and family housing units in an amount not to exceed \$63.59 Billion.<sup>54</sup>

Even though Congress has approved funding levels, from a timeliness perspective the services cannot meet the current demands to have all houses replaced or fixed by the year 2010 without significantly affecting the Operational Tempo (OPTEMPO).

The illustration below (Figure 5) illustrates the amount of money spent on MILCON construction over the past and projected out through FY 03. Again, Congress this year under the Defense Authorization Act for fiscal year 2002 has approved some 10.5 billion for MILCON and family housing accounts.<sup>55</sup> This money is not just for Family Housing; it also is expected to be used on infrastructure to start fixing the Backlog of Maintenance and Repair (BMAR) shortfalls.

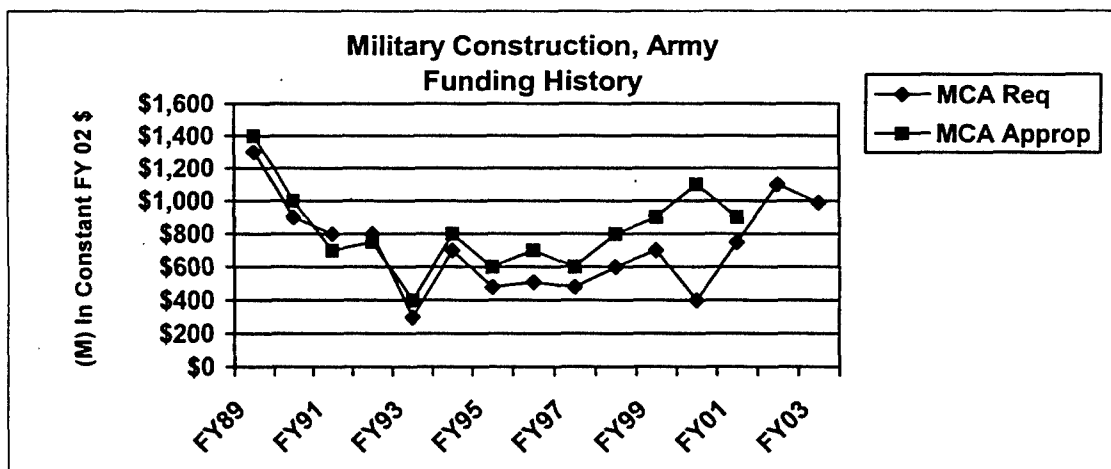


FIGURE 5 - MILITARY CONSTRUCTION FUNDING HISTORY

MILCON dollars routinely are authorized or appropriated at less than the 100% of the needs for maintenance and repair. This is probably the main contributor to the significant bill we have across DoD in BMAR. Installation Commanders were also diverting O&M dollars to use for mission requirements rather than for infrastructure requirements. Installations will continue to have this BMAR challenge as long as they rely on UFRs to solve their current maintenance

backlog. However, it appears the emphasis has shifted from traditional MILCON to RCI programs.

In a recent visit to the U.S. Army War College by a senior high ranking government official stated that RCI is the right solution for resolving our housing needs since the private sector does this business best and the Army can't afford it. He is convinced that the Army's option for resolving our installation housing shortfall will be fixed by the RCI Programs now being put in place across Army Installations.

#### **REINVEST (BAH) SUBSISTANCE TO THE INSTALLATIONS**

Providing the Service Member's BAH to the Installation where they are assigned should also be considered. Unfortunately, Congressional regulations prohibit a service members BAH coming directly to the Installation. The failure of most installations over the past 25 years is due to the unreliable income required to build and sustain an effective program. All studies that I have looked at have proven this repeatedly. Truly, the success of the RCI program is because they have a steady and reliable amount of income coming directly to them based on service members BAH dollars.<sup>56</sup>

#### **GET OUT OF THE HOUSING BUSINESS**

The final option presented, although probably not very likely to be adopted by Army leadership, would be for DoD to get out of the housing business entirely. Results of the data collected as part of the "Well-Being" survey at the U.S. Army War College were mixed, almost half of the response (45.5%) agreed that DoD should look at this option. The main reason for their response was probably attributed to low satisfaction rate of the current housing programs. However, the study was not conclusive since it only looked at a small percentage of the total DoD service population. In my opinion closing another QOL program especially one that is ranked in the top three of all the DoD programs would clearly have a significant impact on the "Well-Being" of our service members and their families, something DoD cannot afford to do.

#### **ADDITIONAL CONCERNS**

In additional to what has already been stated above, other significant issues must be addressed. For example, can the Private Sector build houses for all the ranks equal to or lower than the housing allowance provided to the service members? Will builders agree to only charge the occupant their housing allowance? So far, the information available assures the service member, that the Government will pay for all utility expenses; however, plans are already being discussed to change this policy.

The plan that is being considered at Fort Meade, and I believe will be adopted for all installations are as follows: Each new home built will be metered. Both the Installation and the RCI Partner separately will conduct independent surveys to establish utilization rates for each type of house. After both studies are complete then the average of the two rates will be established as the base cost of utilities for each home. The first year there will be no cost for utilities to the occupant. After approximately one year, each home will have an established utilization rate that will determine the utility costs. Technically, if the occupant stays within the band established they would not be charged for utilities. However, if the occupant goes over that set amount, occupants will be charged the difference.<sup>57</sup>

"Privatization" is only the first step in meeting our "Well-Being" concerns. Blending privatization and military construction is expected to cut by two-thirds the projected time and cost of rebuilding housing –currently projected at 30 years and \$30 Billion if done by the military alone.<sup>58</sup> The Army's original goal is to privatize all family housing in the United States, where feasible, by 2005.<sup>59</sup> Unfortunately, the projected date for doing this has been delayed from 2005 to now 2010.<sup>60</sup>

I conclude that there are four major concerns. One, is that the Army may be turning its cheek and attempting to get out of the housing business all together. According to one Pentagon source, housing is not our core competency, and he recommends letting the professionals do this since they can provide a better product, leverage sufficient dollars by utilizing BAH as a mortgage payment as opposed to capitalization up front, and use Army assets (housing/land/customer demand) as incentives to procure better housing for military personnel.<sup>61</sup> Another source revealed, "It looks now like most Commanders just want to turn housing over to a civilian contractor and get out of the business totally. That of course usually means that money will drive everything and not concern for military families. This was not the intent of the program."<sup>62</sup> One could conclude for the Army, privatization appears to be the short-term solution towards resolving the current DoD housing shortfalls. Congress authorized "Privatization" in 1996 and so far, twelve contracts have been let totaling some 19,000 homes.

Second, there may be a lack of quality design. For example, in 1998 the Government filed a lawsuit for what was called a faulty design and construction of an 828-unit family housing project in Ellsworth Air Force Base in South Dakota. The Air Force declared nearly 500 of the units uninhabitable because of structural damage and design defects. In this case, the private developer agreed out-of-court settlement of \$8 million and to make the repairs. As long as there remains government oversight then privatization can make great strides to fix this long-standing problem. The National Defense Authorization Act(s) recently passed by Congress

definitely jump-started this effort. It will take the commitment of both the installations and the surrounding communities to meet the annual housing requirements established by Congress. I am not convinced that the Army will achieve its goal within the timelines established. If only four bases are being looked at in 2001-2002, there are still some 20 other Army Installations that must also meet these objectives as well. This year's MILCON figures have allocated an average of \$131,000 per home. According to Senator John Warner of Virginia, he believes there is broad consensus among congress to fix the problem. He believes we are on track to fix the problem by 2008.<sup>63</sup>

Third, it may be difficult to sustain the rate of initial savings. With the lack of funds to fully support Army Transformation initiatives, I believe our QOL programs will again be the bill payer and further impact on our "Well-Being" concerns.

Finally and equally as important, I believe DoD potentially could loose control of and perhaps their interest over "*Housing*" in the long run. After 50 years, these contracts will be up for renegotiation. Will the Army be capable of assuming back this "*Housing*" program from the Private Sector if necessary or obligated to do so?

Although RCI is progressing on at least four Army Installations discussed above, only time will tell if all of the housing problems as a QOL issue for DoD can be resolved through "Privatization" efforts. However, there are some concerns that this is only focused on CONUS Installations and as a result will not meet the "Well-Being" concerns of our service members and their families who are stationed overseas. The success of the RCI Program is solely based on the service members BAH going directly to the Private Businesses. It's not the Private Businesses who are the best qualified to make this happen, it's the assurance of a stable income coming consistently from service member's BAH which allows them to be successful.

Army failure in the past to maintain their housing was due to a lack of consistent and reliable dollars to sustain and properly maintain existing housing units. According to multiple sources, the Army was not given sufficient money to adequately maintain these houses to adequate housing standards under Installation Status Reporting (ISR) guidelines, thereby creating a huge BMAR bill forcing only emergency or band-aid repair under less than desirable conditions.

We must examine further, why DoD believes the RCI Program is the right solution. In my view, DoD strongly agrees that the private sector is the best solution to meet our total housing shortfalls. This clearly is not the case. Yes, "Privatization" will definitely help DoD out in the short run to repair and improve the quality and numbers of houses available to the service members and their families for CONUS. Unfortunately, "Privatization" is not the total solution.

After completing this research, I am convinced that our "Well-Being" concerns will be satisfied under "Privatization" but only for CONUS Installations. Not all installations have access to land where the RCI Partners can build or expand current housing communities. BAH rates are not consistent or more specifically, economically feasible for all RCI Partnership programs to sign up for. "Privatization" will not be consistent across the Army. When military family moves from a high cost area to a low cost area, standardization for housing across DoD Installations will not be the same. For those locations where you have a high BAH rate the quality of the housing programs will be effective. For those installations where BAH rates are low, RCI Partners may not be able to afford to build the same quality of home and housing community of their competitors around the country. The result of this inequality of housing will have an impact on our "Well-Being" at least in the short run.

## **CONCLUSIONS**

Whether the family of a new soldier or a senior grade leader, military families expect their home to be safe, affordable and conducive to a lifestyle that allows the family to grow and feel good about the sacrifices related to service to our nation. The home is the center of family life and the environment established makes a lasting impact on service members and their families.<sup>64</sup> This is not about money, its about taking care of our most precious resource, that of our service members and their families. This is truly about timing and fixing this shortfall now and not waiting 30 years to fix the problem.

There are some successes realized from the "Privatization" program already. Under "Privatization", there is a dependable revenue stream that increases annually to account for actual inflation, thereby allowing for careful planning and effective management. Several lessons have already been learned from the first project at Fort Carson and these lessons learned are being applied to future contracts at Fort Hood and Fort Meade. Although a great plan on paper, DoD is still required to pay for the costs of these new privatization initiatives. Under the RCI program the Army believes that this shortfall will be resolved in the contractual obligation to provide for the life cycle replacement costs for furnishing (appliances) and replacement factors for repair, to preclude these houses from reaching the current dilapidated state that our facilities have reached today. If this truly is the case, then "Privatization" is clearly the right choice as it relates to our housing shortfall for CONUS Installations.

Looking at all the data presented it is safe to surmise that there is a correlation between DoDs Quality of Life Programs as it relates to one's Well-Being. Therefore, based on the information presented, DoD should continue to improve upon their QOL Programs more than

they have in the past, especially their top QOL Programs. It is fair to say that as the individual satisfaction rate increases towards QOL Programs (in this case *Housing*) the service member is more likely to remain in the Military based on their improved Well-Being status.

Whether this is the right solution for a long-term problem remains to be seen. Not until the contracts have expired and housing reverts back to the Army will we truly be able to say that the "Well-Being" concerns of our service members and their families is being sustained for years to come and that "Privatization" was the reason for that success.

## RECOMMENDATION

After reviewing all of the information available and studying in detail the data collected during recent "Well-Being" and QOL surveys, I conclude that "Privatization" is not the total solution for resolving our housing shortfalls but it does have a lot of merit. Bottom line; this solution is not consistent and it is not applicable for all DoD Installations.

For overseas, "Privatization" is not an option being applied to resolve their housing shortfalls. Today, MILCON appears to be the only source for resolving family housing shortfalls there. Having spent three tours overseas, I can attest that we have as much of a housing problem there as we have in CONUS. As we all have experienced, MILCON is only a viable solution for short periods of time and can not be relied upon for a long term solution.

To meet all of our housing shortfalls across CONUS and overseas, another solution would be to change legislation that authorizes our BAH dollars to go directly to those installations where the service members are living in DoD housing. If our Installations had a regular *fixed* and *fenced* income to maintain and sustain the *Houses* that are on their Installation they could develop appropriate programs to fix our current conditions and maintain them well into the 21<sup>st</sup> Century. By having this fixed income (as the RCI Partners enjoy), installations will be able to meet their housing requirements and more importantly meet the service members and their families "Well-Being" concerns.

Further, from a "Well-Being" perspective, the issue of charging utilities will not sit well with our service members and their families. Not paying for utilities is another benefit of living in Government Housing. Service members do not like change unless there is a good reason for it. I believe most occupants will stay within the established utilization rates and would rather not have to worry about paying for another bill, especially when they have not had to pay for this service in the past. This will be perceived as another QOL benefit that is being taken away unless, if they are under the utilization rate and the money saved will be kept by the housing occupant. We must change the current thought process of having soldiers pay for their utilities

as part of the RCI plans. For example, thermostat regulators can be installed to ensure efficiency. Paying for utilities is not the right solution. However, if we have to go down that path, then we should at least look at not splitting rent and utilities from the service members BAH. I would recommend that all of the BAH money goes to the RCI Partners, and only when a service member exceeds utilization rates should they have to pay for any additional utility fees.

As Gen Shinseki so eloquently said, "the Army's readiness is inextricably linked to the "Well-Being" of its people-soldiers, civilians, veterans and their families.... The most significant investment in the nation's security is investing in them."<sup>65</sup> Housing is inextricably linked to "Well-Being" and one of most important QOL programs within DoD. We just cannot turn our backs and have the Private Sector take sole responsibility to resolve this critical issue especially when it does not apply to Installation. However, working together with RCI Partners and by changing legislation, DoD can resolve this housing issue, and improve significantly our "Well-Being" concerns.

WORD COUNT = 9020

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<sup>57</sup> Ibid.

<sup>58</sup> Ibid., Baskervill, p. 8.

<sup>59</sup> John Brenci, "Housing Privatization Under Review," Soldiers Vol. 54, No. 7, (Jul 1999): p.14.

<sup>60</sup> Thomas A. Kraeer, Office of the Assistant Chief of Staff for Installation and Management, [Thomas.kraeer@hqda.army.mil](mailto:Thomas.kraeer@hqda.army.mil). Electronic mail message to author, 10 October 2001.

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<sup>63</sup> Ibid., Baskervill, p. 9.

<sup>64</sup> Ibid., Stone, p. 3.

<sup>65</sup> GEN Eric K. Shinseki, U.S. Army Chief of Staff. The Army Vision: Soldiers on Point for the Nation...Persuasive in Peace, Invincible in War, Washington, D.C.: The Pentagon, 12 October 1999.

## GLOSSARY

AF	Appropriated Funds
AUSA	Association of the United States Army
BAH	Basic Assistance for Housing
BMAR	Backlog of Maintenance and Repair
BRAC	Base Realignment and Closure
CONUS	Continental United States
DoD	Department of Defense
FHFH	Fort Hood Family Housing
GOA	Government Accounting Office
MDW	Military District of Washington
MC	Military Communities
MILCON	Military Construction
NAF	Non Appropriated Funds
NDAA	National Defense Authorization Act
OPTEMPO	Operational Tempo
QOL	Quality of Life
RCI	Residential Communities Initiative
UFR	Unfunded Requirement



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